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Promoting Quality Affordable Housing and Community
Development Throughout San Diego County

San Diego Housing Federation Commercial Linkage Fees November 8, 2010

The San Diego Housing Federation supports an increase in commercial linkage fees. Linkage fees are an indispensable source of local funding for affordable housing. The linkage fee represents the primary source of funds for SDHC's Housing Trust Fund, accounting for 76% of the Housing Trust Fund's total revenues since Fiscal Year 1992. To date, SDHC has collected a total of \$51.1 million in linkage fee revenues, which has historically been leveraged at a ratio of 8 to 1. The fees have contributed to the creation of nearly 4,000 affordable homes.

Economic Viability of Businesses - According to a study released by the National Center for Business and Economic Research and the San Diego Regional Chamber of Commerce, the most significant barrier to commercial expansion is the availability of a qualified workforce. According to the report, this barrier ranks above concerns regarding taxes and regulations. Access to a qualified workforce includes ensuring geographic proximity to appropriate housing affordable to the relevant workforce. Linkage fees are a way to ensure that potential employees are proximate to jobs.

Lack of Housing Affordability Hurts Business - A Keyser Marston survey of found that one of the obstacles to business development cited by economic development professionals and business advocacy groups is the lack of affordable housing within a metropolitan area. The lack of affordable housing makes employee recruitment more difficult, and tends to increase labor costs for employers. The survey found that the San Diego region ranked 48th out of 50 metropolitan areas (50 being the worst) in terms of housing affordability.

Housing Construction as an Economic Generator – According to a recent study by the Center for Housing Policy, for Fiscal Year 2009-10, the construction of a home in the state of California produces an estimated \$375,700 in new economic impact. The economic generator spans a range of industries which can include production of new materials, purchase and installation of materials for the construction.

Local Funds are Necessary to Create Affordable Housing Stock – The State of California eliminated funding for affordable housing development from the general fund nearly a decade ago. Since that time, affordable housing developers have depended

on state bond issuances to fund development (Prop. 1C and Prop. 46). The funding from these bond issuances is now nearly depleted. In addition, state and federal tax credits, a primary source of affordable housing funding, are undependable due to market volatility and the general state of the economy. As a result, local affordable housing funds are more important than ever.

Required Leverage of Non-Local Funds - Linkage fees have historically been leveraged 8 to 1 with outside funding sources. Linkage fees are the primary source of local matching funds for federal and state programs. The City receives approximately \$9M in Federal HOME funds each year. The HOME program requires a 25% local match of funds. In 2009, the City generated less than \$700,000, far less than is required to meet the matching requirement.

Quality of Life for Residents – A home is considered affordable if it costs no more than 30% of the household's income. According to the recent Bay Area Economics Study for the San Diego Housing Commission, San Diego is the most unaffordable city for low income renters among comparable cities. Seventy-two percent (72%) of very low and extremely low income renters are paying more than 30 percent (30%) of their income on housing-related costs. Affordable housing means that these families have more discretionary income to spend on other needs, including healthy foods and medical care.

Fee is De minimus – Current fees levels are a fraction of a percent of the overall development cost in all commercial use categories. Even at nearly 10 times the current level, the fees would result in an insignificant impact to a developer's bottom line. Furthermore, the fees address impacts generated over the life of a project (generally 40 years or more). This means that while the fees are being put to work housing members of the workforce, the impact to commercial development which is already de minimus can be further mitigated by amortizing it over the life of the building. There is **no** data that supports the assertion that the City of San Diego has been less competitive as a commercial market as a result of the assessment of the linkage fee.

Fee is Not a Reflection of the Impact of New Development - Unlike other fees, the linkage fee has not been adjusted to account for cost of living increases or market conditions since it was adopted. Worse, in 1996, the City Council reduced the fee by half to spur business development. As a result, the fee only represents a small fraction of the true impact of new employment.